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FISCAL IMPACT STATEMENT

LS 6528 | **NOTE PREPARED:** Feb 11, 2007
BILL NUMBER: HB 1007 | **BILL AMENDED:** Feb 7, 2007

SUBJECT: Taxation.

FIRST AUTHOR: Rep. Kuzman | **BILL STATUS:** CR Adopted - 1st House
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: *Sales Disclosure:* This bill requires a county assessor in a county that does not contain a consolidated city to verify the accuracy and completeness of a real estate sales disclosure form before the form is filed with the county auditor.

Local Control Board: The bill establishes a local government capital project property tax control board in each county for the purpose of approving proposed bond issues and lease rental agreements involving a political subdivision other than a school corporation.

Local Fund Transfers: This bill permits a political subdivision to transfer money from one fund to another and use the money for the purposes of the fund to which the money is transferred.

Maximum Levy Banking: The bill eliminates the authority of a civil taxing unit to bank unused property tax levy authority under the statutory maximum permissible levy limitations.

Local Option Income Tax: This bill permits a county to impose an additional 1% County Adjusted Gross Income Tax (CAGIT) rate or a County Option Income Tax (COIT) rate on individuals and corporations to provide property tax relief and additional revenue for the taxing units in the county. It permits the county in which an individual has the individual's principal place of employment or business to retain a portion of the tax. The bill also requires the revenue that is not used for property tax relief to be used for public safety expenditures.

CEDIT: The bill eliminates the authority of a city, town, or county to use County Economic Development Income Taxes (CEDIT) for purposes other than the purposes expressly stated in the law.

Child Services Levy: This bill freezes the amount of a county's obligation to provide funding for child services at an amount equal to the lesser of the county's contribution for 2005 or 2007 and it requires the Department of Child Services to provide any additional funding necessary to pay the costs of child services. In addition, the bill requires the Budget Agency to reimburse a county for child services expenditures in 2006 and 2007 that exceeded the county's contribution for child services in 2005.

Judicial Mandate Levy: The bill permits a taxing unit to impose a local judicial mandate levy to pay capital, financing, and operating costs incurred to comply with a court order.

Assessing Contracts: This bill allows only the county assessor, rather than the county and township assessors, to employ a professional appraiser to act as a technical advisor for the county and townships.

The bill also makes related changes and repeals provisions requiring a county to obtain loans or issue bonds to cover shortfalls in the amount of money available to provide child services.

Effective Date: Upon passage; July 1, 2007; January 1, 2008.

Explanation of State Expenditures: *Local Control Board:* The DLGF, which currently reviews civil taxing unit debt and lease proposals, would no longer be required to do so. This proposal would free up some of the DLGF's current resources available for other purposes.

Maximum Levy Banking: Regarding civil unit maximum levies, the state pays Property Tax Replacement Credits (PTRC) in the amount of 20% of the portion of operating levies that are attributable to real property and non-business personal property. Homestead credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Under this provision, subject to appropriation, state expenditures for Property Tax Replacement Credit (PTRC) and Homestead Credits would vary in CY 2008 and beyond. The amount of the increase or decrease would depend on whether affected taxing units decide use all of their available levy authority.

Local Option Income Tax: There could be significant additional expense for the Department of State Revenue and the DLGF in determining the assessed value and income allocation for each corporation in each county. The allocation would be used to calculate each corporation's total LOIT and to compute the tax distribution to each county. A blended tax rate of some sort would have to be computed separately for each corporation if every county does not adopt at the same tax rate at the same time.

Child Services Levy: **The net total additional state expenditure for child services is estimated at $220 M in FY 2008, $105 M in FY 2009, and $134 M in FY 2010.**

Under this provision, beginning in CY 2008, the county family and children's fund levy would be frozen at the lesser of the 2005 or 2007, amount of child services costs incurred in the year that were paid from property tax, cash balances derived from property tax, or from loans, less any reimbursements received before July 1, 2007. The state would be responsible for any child services costs in a county that exceed the money available in the county's family and children's fund.

The total statewide family and children's fund levy freeze is estimated at $286 M. Under current law, family and children's fund levies are estimated at $404 M in CY 2008, $424 M in CY 2009, and $445 M in CY 2010. The gross levy, therefore, would be reduced by an estimated $118 M in CY 2008, $138 M in CY 2009, and $159 M in CY 2010. Assuming full PTRC/HSC funding for CY2008 and later, net levies (after PTRC and state homestead credits) would be reduced by an estimated $106 M in CY 2008, $124 M in CY 2009, and $143 M in CY 2010. On a fiscal year basis, the state's additional expenditures to pay for costs above the levy freeze are estimated at $54 M in FY 2008, $115 M in FY 2009, and $134 M in FY 2010.

In addition to the levy freeze, the state would make a one-time distribution to counties. The distribution must first be used by a county to pay for outstanding child welfare obligations. If the county's obligations are more than the distribution amount, then the remainder would be paid from the county's debt service fund. Any remaining money from the distribution would be used to further reduce the 2008 family and children's fund levy.

The amount distributed to each county would equal (1) the difference between the county's 2006 child welfare cost from property tax (as calculated above) and the 2005 cost; PLUS (2) the difference between the 2007 cost and the 2005 cost.

The statewide total one-time distribution amount is estimated at $172 M. This distribution must be made by March 1, 2008 so the entire $172 M would be paid in FY 2008. Net levies (after PTRC and state homestead credits) would be reduced by an estimated $156 M in CY 2008 On a fiscal year basis, the state's net expenditures would increase by an estimated $166 M in FY 2008 and would be reduced by $10 M in FY 2009.

Judicial Mandate Levy: Under the bill, the state would pay PTRC and Homestead Credits on the operating portion of the levy but not on the capital portion. This provision is likely to have no impact on total PTRC and Homestead Credit expenses.

Explanation of State Revenues:

Explanation of Local Expenditures: *Sales Disclosure:* Under current law, sales disclosure forms are filed with the county auditor and then forwarded to the county assessor. This proposal would require the county assessor to review and verify that the sales disclosure form is accurate and complete before it can be filed with the county auditor. The county assessor may either stamp the form or indicate by other DLGF prescribed methods that it is correct. The county auditor may not accept a conveyance document if the sales disclosure form has not been verified by the county assessor.

Assessing officials use information currently contained in the sales disclosure form to compute assessments and annual adjustments. Only forms with accurate and complete information are of use. Better sales information will produce more accurate property assessments. Some counties already have an unofficial arrangement between the assessor and auditor for the assessor to check the form before the auditor accepts it. For other counties, additional time might be necessary to check the forms as they are filed but should be able to be done with existing resources. This provision does not apply to Marion County.

Local Option Income Tax: There could be additional expense for all counties (including non-adopting counties) in determining the total assessed value in the county for each corporation. This information would be needed to allocate each corporation's Indiana income to each county.

CEDIT: Under current law, proceeds from CEDIT may generally be used by counties, cities, and towns for:

Economic development projects;

Construction, acquisition, and renovation of capital projects;

The retirement of bonds issued for a capital project;
Payments to nonprofit corporations for planning and implementing economic development projects;
Substance removal and remediation;
Funding of a revolving fund; and
<u>For any lawful purpose for which the taxing unit may use its other funds</u>.

This bill would repeal the ability of counties, cities, and towns to use CEDIT proceeds for "any lawful purpose." This provision would not impact the amount generated from CEDIT ($250 M in CY 2007). Nor would this provision impact any of the specified uses for some taxing units or the funding of additional homestead or residential credits allowed in current statute.

Assessing Contracts: Under current law, a township assessor or the county assessor may employ a professional appraiser. The township assessors and the county assessor may also vote to employ one professional appraiser for the entire county during a general reassessment. That vote is binding on all townships.

Under this provision, the county assessor would make all decisions regarding the employment of a professional appraiser to act as a technical advisor whether during a general reassessment or not. At the county assessor's discretion, the professional appraiser could work in one or more townships. The use of professional appraiser would not be required in all townships.

<u>**Explanation of Local Revenues:**</u> *Local Control Board:* This bill would create a local government capital project property tax control board in each county. Each local board would be comprised of nine members appointed by the county and the municipalities in the county. The initial appointments would be made by June 30, 2007.

Civil taxing units (not schools) would be required to seek the local board's approval before imposing property tax levies for debt or lease payments. The local boards may approve, approve with modifications, or deny a proposal. The DLGF, which currently reviews civil taxing unit debt and lease proposals, would no longer be required to do so. However, no change would be made to the DLGF's review of school projects.

Local Fund Transfers: The provision would allow civil taxing units and school corporations to transfer money between funds after the adoption of an ordinance or resolution that specifies:
1, The transfer amount;
2. The funds involved;
3. The transfer date; and
4. The general purpose of the transfer.
The taxing unit would be required to publish a notice of transfer.

The bill would increase a taxing unit's flexibility in the use of money between funds. Taxing units may have few or many funds. Some funds have levy controls and some have rate controls. Taxing units may impose debt service levies in an amount sufficient to pay debt. The fiscal impact would depend on whether total levies are influenced by the ability to shift money between funds.

Maximum Levy Banking: Prior to 2004, civil taxing unit maximum permissible levies were calculated each year by multiplying the previous year's maximum levy by the six-year average increase in Indiana nonfarm personal income (limited to 6% with some exceptions). A taxing unit that did not use all of its maximum levy in a year never lost the unused amount from its base. Under SEA 1 (2004), the calculation for the maximum levies was changed so that the maximum levy base was equal to the previous year's actual levy rather than the maximum levy. This change removed the previously unused portion of maximum levies from the base and eliminated any "banking" of unused levy authority in the future. SEA 260 (2006) restored the "banking" of one-half of the previous year's unused levy authority for levies beginning in CY 2007.

Beginning with the calculation of 2008 maximum levies, this bill would once again eliminate all banking of unused levy authority. This provision could have one of two effects, depending on the taxing unit. First, without banking, some units may levy their maximum amount each year even if it is not needed out of concern that they might lose any unused authority in the future. For these units, this bill could result in higher levies in years when the unit does not need the entire levy. Second, some units levy only what they need to levy and might not use their entire levy authority in some years. For these units, this provision could result in lower levies in years when the unit would have otherwise decided to take advantage of their unused authority.

Local Option Income Tax: This provision would permit counties to adopt an additional local option income tax (LOIT) on individuals and corporations at a resident rate of up to 1% and a non-resident rate equal to one-fourth of the resident rate. The non-resident rate would be charged to all non-residents who maintain their principal place of business or employment in the county but live in another county, regardless of whether the county of residence imposes a tax. If the county of residence does impose a tax, then the taxpayer would receive a credit against their home county tax in the amount of the tax paid to the county where the taxpayer is employed or maintains his or her business.

Example: Assume Lake County and Porter County both adopt a 1% local option income tax. Taxpayer A resides in Porter County but works in Lake County. Taxpayer A's annual taxable income is $20,000. Taxpayer A must pay a 0.25% tax to Lake County where she is employed. Taxpayer A's Lake County tax totals $50. Taxpayer A also must pay a 1% tax to Porter County where she resides. Taxpayer A's Porter County tax is $200. However, Taxpayer A is entitled to a credit against her Porter County tax equal to the amount she paid in Lake County tax. Thus, her net tax liability to Porter County is $150 ($200 minus a $50 tax credit).

Indiana-derived corporate income would be apportioned to counties on the basis of the corporation's assessed value in the county compared with the corporation's statewide assessed value.

The tax proceeds would be used for property tax relief and for increased public safety operating costs. At least 60% of the individual tax would be used for property tax relief with each adopting county determining both the percentage of revenue used for tax relief and the allocation of that amount to (1) property tax replacement credits for all property and (2) homestead credits. All of the proceeds from the corporate tax would be used for homestead credits.

The tax would be effective on July 1, 2007 for counties that adopt between April 1, 2007 and May 31, 2007. The tax would be effective on August 1, 2007, for counties that adopt in 2007, after May 31, 2007. A county could adopt in any other year from January through March.

Assuming that all counties adopt the tax at the full 1% rate by May 31, 2007, the tax on individuals' adjusted gross income (AGI) would raise approximately $1,219 M for CY 2008, $1,246 M for CY 2009, and $1,274 M for CY 2010. Assuming that 60% of the total tax from individuals would be used for property tax relief, the minimum amount that would be used for a combination of PTRC and homestead credits is estimated at $731 M for CY 2008, $747 M for CY 2009, and $764 M for CY 2010.

Assuming that all counties adopt the tax at the full 1% rate by May 31, 2007, the tax generated from corporations is estimated at $52 M in CY 2008, all of which must be used for local homestead credits. This mount would grow by an estimated $4.5 M per year.

Assuming that all counties adopt the tax at the full 1% rate on individuals' AGI and use 40% of the proceeds for new or increased public safety costs, an estimated $488 M for CY 2008, $499 M for CY 2009, and $510 M for CY 2010 would be distributed to civil taxing units.

Child Services Levy: As explained in *Explanation of State Expenditures*, the county Family and Children's Fund Levy would be frozen under this provision beginning in CY 2008 and the state would make a one-time distribution to counties in CY 2008 to pay child services debt and to reduce the 2008 Family and Children's Fund levy. **The total net levy reduction under this provision is estimated at $262 M in CY 2008, $124 M in CY 2009, and $143 M in CY 2010.**

Effect on 2% Circuit Breaker: The cost of the current 2% circuit breaker to local taxing units would be reduced as a result of the Family and Children's Fund levy freeze and the LOIT property tax relief provisions of this bill.

NOTE: *The following analysis of the cost of the current 2% property tax credit as affected by this bill are subject to change as local assessors finalize trending/equalization adjustments and as actual normal assessed value (AV) and levy growth rates become known. The actual credits will differ from these estimates.*

Under current law counties must provide credits against the property tax liability of certain classes of property if the net property tax on the property, after all other credits are applied, exceeds 2% of the property's gross assessed value. The circuit breaker credits reduce local property tax revenue.

By reducing net property tax payments, this bill would result in a smaller revenue reduction than the credits under current law. This local revenue increase is estimated at $55 M in CY 2008, $44 M in CY 2009, and $168 M in CY 2010.

Under this proposal, the total cost of the credit would be estimated at $67 M in CY 2008, $78 M in CY 2009, and $258 M in CY 2010. The credit would affect an estimated 716 taxing units in 56 counties in 2010. There are a total of about 2,400 taxing units in the 92 counties.

By comparison, the cost of the current 2% credit is estimated at $122 M in CY 2008 and CY 2009, and $426 M in CY 2010. The current credit will affect an estimated 1,155 taxing units in 74 counties when fully implemented in 2010.

Judicial Mandate Levy: This bill would create a judicial mandate levy. This levy would be used to pay the capital and operating costs of a project required by a court order dealing with the Americans with Disabilities Act or to bring a jail or juvenile detention facility into federal or state compliance. This levy would not be subject to the maximum permissible levy. The judicial mandate levy would be shown separately on tax bills.

Under current law, a levy for capital expenditures is not subject to maximum levy limits. An operating levy is subject to the maximum levy. Counties may currently appeal to the DLGF for an increase in their maximum levies for jail or juvenile detention operations to bring those operations up to standard.

This provision would likely have no impact on the total levy.

State Agencies Affected: Department of Local Government Finance; state Budget Agency; Department of State Revenue.

Local Agencies Affected: All civil taxing units and school corporations; County assessors; Township assessors; County auditors.

Information Sources: LSA parcel-level property tax database; Local Government Database; OFMA Income Tax databases; Mary Edmonds, Budget Supervisor, Department of Child Services, 317-232-4758.

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